Utkarsh Small Finance Bank Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Utkarsh SFB is a high-growth lender transitioning from an unsecured MFI-heavy model to a diversified retail bank, currently managing a Gross Loan Portfolio (GLP) of ₹18,299 Cr.**	—
2	**Revenue grew 27.6% YoY to ₹3,578.81 Cr, underpinned by a robust 31.1% expansion in the loan book and a healthy Net Interest Margin (NIM) of 9.10%.**	—
3	***Operating expenses face pressure from a 108.7% spike in Business Correspondent commissions, though the bank maintains a disciplined ROCE > WACC profile.***	—
4	**Profitability is supported by strong internal accruals, with a PAT of ₹497 Cr and a high CRAR of 22.57% following a successful ₹500 Cr IPO.**	—
5	***Liquidity risk is evident in the maturity profile, with 34.6% of deposits (₹6,047.82 Cr) maturing within one year, necessitating active refinancing management.***	—
6	**Cash flow generation is exceptional, with Cash Flow from Operations (CFO) at ₹1,148.45 Cr, representing a high 2.31x PAT conversion.**	—
7	**Capital allocation is focused on de-risking through branch expansion and a digital-first Transformation Management Office to pivot toward secured MSME and Wheels segments.**	—
8	***Earnings quality is moderate as the reported Net NPA of 0.03% is heavily managed via ₹148.62 Cr in discretionary floating provisions to mask underlying volatility.***	—
9	***Governance is stable with a 10/10 matrix score, yet 100% of CSR funds (₹5.12 Cr) are channeled to a promoter-linked foundation, representing a concentrated RPT.***	—
10	***The portfolio carries high systemic risk with 60.7% unsecured exposure and 60% geographic concentration across Bihar, Uttar Pradesh, and Jharkhand.***	—
11	**The outlook depends on the successful scale-up of secured assets to 50% of GLP, which could trigger a valuation re-rating to 2.5x P/B.**	—
12	**Investment View: ACCUMULATE; monitor NIM thresholds below 8.50% and ensure unsecured advances do not exceed 70% of the total book.**	—

Final research summary: utkarsh small finance bank (usfbl)

1. Business overview

- **Business Segments:** Operates via a "Differentiated Branch Network" comprising Micro Banking (MB) outlets (unsecured JLG lending) and General Banking (GB) outlets (retail/wholesale assets and liability gathering).
- **Revenue Drivers:** Primary driver is the high-yield Micro-Banking segment (62% of GLP); however, incremental growth is shifting toward MSME (66.7% growth) and Wheels (68.5% growth).
- **Cost Drivers:** Major costs include workforce expansion (16,081 employees), branch rollout (202 new branches in two years), and digital transformation (TMO office).

- **Industry Position:** Successfully transitioned from a microfinance institution (UCL) to a diversified Small Finance Bank, following a July 2023 IPO.
- **Expansion Plans:** Pivoting liability strategy toward "Top 100 Cities" to garner retail deposits and CASA, moving away from high-cost bulk deposits.
- **Acquisitions & Capacity:** No recent acquisitions; capacity expansion focused on the GB network (276 branches), with 92% located in Metropolitan/Urban areas.
- **Segment Performance:** Gross Loan Portfolio (GLP) grew 31.1% YoY to □18,299 Cr. MSME and Wheels segments are being used to balance the risk profile.
- **Geographical Presence:** Heavily concentrated in the "Hindi Heartland," with Bihar, Uttar Pradesh, and Jharkhand accounting for 60% of the GLP.

2. Management commentary & outlook

- Management is executing a "graduation" strategy, transitioning matured Joint Liability Group (JLG) borrowers to Micro Banking Business Loans (MBBL) with higher ticket sizes (up to □1 Lakh).
- The bank is targeting a reduction in unsecured micro-lending concentration, which moved from 66% to 62% of the portfolio in one year.
- Asset quality remains a core focus, with management maintaining a near-total Provision Coverage Ratio (PCR) of 98.92% and utilizing "Floating Provisions" as a conservative buffer.
- The establishment of a Transformation Management Office (TMO) in partnership with a top-tier consulting firm signals a shift toward "assisted digital" journeys to reduce loan turnaround time.
- Liability strategy is focused on granularity; reliance on the "Top 20 Depositors" was reduced from 21% to 18% during the year.
- Management is aggressively pursuing third-party fee income through distributions of Insurance (HDFC Life, ICICI Pru) and Mutual Funds to maximize wallet share from 4.5 million+ customers.
- The industry outlook is viewed as positive for underpenetrated markets, though management acknowledges regional concentration risks in the agrarian economy.
- Long-term vision involves evolving into a "Full-Service Retail Bank" while maintaining the "human touch" required for rural collections.
- Management exhibits a "Measured Aggression" tone. They are aggressive in asset growth (31% YoY) and branch expansion but remain conservative in risk provisioning (99% PCR). There is a visible shift from "MFI-only" thinking to a "Full-Service Retail Bank" philosophy. However, a gap exists between the rhetoric of "digital-first" and the reality of a 16,081 headcount, suggesting the business remains highly labor-intensive. The pivot to "Top 100 Cities" for deposits is a high-stakes move to lower the cost of funds, which will determine if they can compete with larger private banks in the MSME and Housing segments.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	FY current	FY prior
Revenue	—	—
Interest	—	—
Expenses	—	—
Financing Profit	—	—
Financing Margin %	—	—
Other Income	—	—
Depreciation	—	—
Profit before tax	—	—
Tax %	—	—
Net Profit	—	—
EPS (□)	—	—
Dividend Payout %	—	—

Balance sheet (□Cr)

Line item	FY current	FY prior
Equity Capital	—	—
Reserves	—	—
Borrowing	—	—
Other Liabilities	—	—
Total Liabilities	—	—
Fixed Assets	—	—
CWIP	—	—
Investments	—	—
Other Assets	—	—
Total Assets	—	—

Cash flow statement (□Cr)

Line item	FY current	FY prior
Cash from Operating Activity	—	—
Cash from Investing Activity	—	—
Cash from Financing Activity	—	—
Net Cash Flow	—	—
Free Cash Flow	—	—
CFO/OP	—	—

3.2 Financial analysis summary

- **Revenue** grew by 27.6% YoY to □3,578.81 Cr, primarily anchored by the Retail Banking segment which contributes 85.56% (□3,062.18 Cr) of total income, while Other Income was bolstered by a 100% surge in Bancassurance fees (□44.56 Cr) and □91.59 Cr from recoveries in written-off accounts.
- **Operating Expenses** rose sharply to □1,231.85 Cr, driven by a 44.16% increase in Banking Software Charges (□72.76 Cr) and a 108.7% spike in Business Correspondent Commissions (□54.23 Cr), indicating that Revenue growth is currently reliant on high-cost external distribution and digital infrastructure scaling.
- **Net Profit** of □497.64 Cr was achieved after accounting for Provisions & Contingencies of □499.64 Cr; however, the bank utilized □13.00 Cr of contingency provisions to cushion the P&L, and Net NPA was reported at a negligible 0.03% only after netting off □148.62 Cr of Floating Provisions.
- **Total Assets** expanded to □23,745.20 Cr, but balance sheet risk is elevated as 60.7% of Gross Advances (□10,100.16 Cr) are unsecured, and the bank aggressively cleaned its book via □304.93 Cr in technical write-offs to maintain the optics of a 2.51% GNPA.
- **CFO** of □1,148.45 Cr remains robust relative to PAT, resulting in a high CFO/PAT ratio of 2.31, which allowed the bank to fund a significant portion of its □1,254.32 Cr Investments and Capex internally, though Financing Cash Flow was further strengthened by a □500 Cr IPO.
- **Total Debt** (Borrowings) decreased to □1,995.08 Cr from □2,349.48 Cr, leading to a much-improved Debt/Equity ratio of 0.64, while Capital Adequacy (CRAR) rose to 22.57%, providing a substantial buffer against the high-risk unsecured lending profile.
- **Total Deposits** reached □17,472.60 Cr, but the bank faces a liquidity maturity mismatch with 34.6% (□6,047.82 Cr) of deposits maturing within one year, potentially impacting Finance Cost if interest rates remain volatile.
- **Fixed Assets** increased to □366.91 Cr, supported by Depreciation of □63.51 Cr, while the bank maintains an aggressive policy of fully depreciating assets under □5,000 in the year of purchase, which improves future Earnings Quality by front-loading costs.
- **ROE** moderated to 15.94% due to the enlarged equity base following the IPO, while ROA remained stable at 2.10%, reflecting consistent Asset Turnover and the bank's ability to maintain NIM at 9.10% despite rising competitive pressures.
- **Other Expenses** are dominated by IT and distribution costs (Software + BC Commission = □126.99 Cr), which are structural costs of the SFB model and unlikely to scale down quickly; Other Assets are impacted by □36.36 Cr in unamortized processing fees, representing income already taxed but not yet recognized in the P&L.
- The dominant financial theme of the year is **aggressive loan book expansion and capital fortification via IPO, masked by heavy discretionary provisioning and technical write-offs to maintain pristine asset quality optics.**

3.3 Contingent liabilities & commitments

- **Unspent CSR Commitment:** ₹1.88 Cr liability to be transferred to a special account.
- **SEBI Settlement:** ₹1.24 Cr paid for non-compliances in filings.
- **Income Tax Litigation:** Disclosed as ongoing disputes.
- **Lease Commitments:** Off-balance sheet lease commitments of ₹357.35 Cr representing fixed long-term cash outflows.
- **Regulatory Penalties:** ₹0.01 Cr penalty for non-compliance with public issue norms regarding NCDs, leading to early repayment of ₹25.00 Cr debt.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑↓ — operating cash flows fluctuate based on deposit growth and lending disbursements.	—	Note 18.2.2: Liquidity remains healthy but moderated as credit deployment outpaced deposit growth.
2	Receivables & channel-stuffing signal	Neutral — advances growth of 24.5% aligns with revenue growth of 27.6%.	—	Note 18.4.1: Credit expansion is consistent with the bank's scale-up phase post-IPO.
3	Revenue timing	Profit ↓ — conservative amortization of loan fees prevents upfront income recognition spikes.	—	Note 17.4.A.f: Loan processing fees are recognized over the loan tenure rather than upfront.
4	Revenue from related parties %	Neutral — minimal revenue contribution from related parties ensures arm's length operations.	—	Note 18.19: Transactions with holding company (UCL) are immaterial relative to total operations.
5	Inventory vs revenue growth	Neutral — banking model lacks physical inventory; advances growth supports core interest income.	—	Note 18.5.4: Growth is driven by retail banking, which constitutes 85.56% of total revenue.
6	Inventory valuation method change	Profit ↓ — conservative valuation ignores appreciation but recognizes depreciation, protecting asset quality.	—	Note 17.4.C.b: Bank provides for net depreciation on investments while ignoring net appreciation.
7	Exceptional items in operating profit	Profit ↑ — utilization of contingency provisions cushions P&L against unexpected operational shocks.	—	Note 18.14.5: Use of existing provisions helped manage the bottom line during the fiscal year.
8	Depreciation rate vs useful life policy	Profit ↓ — aggressive immediate expensing of small-value assets reduces current period earnings.	—	Note 17.4.D: This conservative policy suppresses short-term profits but improves future earnings quality.
9	Provision reversals boosting PAT	Profit ↑ — aggressive use of floating provisions artificially lowers Net NPA to 0.03%.	—	Note 18.4.1: NNPA would be significantly higher without the application of these discretionary provisions.
10	Tax rate consistency	Profit ↑ — recognition of deferred tax assets on provisions reduces effective tax expense.	—	Note 17.4.K: DTA is primarily driven by timing differences in provisioning for bad debts.
11	CWIP age and stalling projects	Neutral — high IT spend reflects infrastructure investment rather than stalled capital projects.	—	Note 18.14.9: Increased expenditure relates to digital infrastructure and core banking system upgrades.
12	Deferred tax asset recognition adequacy	Profit ↑ — DTA of □105.10 Cr relies on future profitability for realization.	—	Note 17.4.K: Auditor highlights use of estimates in DTA and provisioning as a critical area.
13	RPT quantum and trend	Neutral — RPTs are primarily administrative or regulatory (CSR), not driving core earnings.	—	Note 18.19: Potential conflict as relatives of directors are members of the foundation.
14	Dividend paid vs FCF adequacy	Neutral — capital adequacy remains strong; growth funded by IPO rather than internal accruals.	—	Note 18.1.1: High capital buffer supports growth despite 60.7% of advances being unsecured.
15	Asset Quality Optics	Profit ↑ — technical write-offs and floating provisions mask underlying credit stress.	—	Note 18.4.1: Aggressive cleaning of balance sheet to maintain low GNPA optics.
16	Regulatory Compliance	Neutral — past lapses in filings addressed via settlement.	—	

#	Check	Impact	Status	Notes detail
				Note 18.30: Indicates need for tighter internal controls over regulatory reporting.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. No adverse observations or qualifications. * **KAM 1: Provisioning for Non-Performing Advances:** Auditor concern regarding the "Use of Estimates" in determining NPA provisions. Management responded by adhering to RBI IRAC norms and maintaining a high PCR of 98.92%. * **KAM 2: Valuation of Unquoted Investments:** Auditor concern over management judgment in valuing non-marketable securities. Management uses a conservative "lower of cost or market" approach. * **Auditor Details:** M/s. Deloitte Haskins and Sells and M/s. Kirtane & Pandit LLP re-appointed as Joint Statutory Auditors. No auditor change during the year.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Utkarsh Coreinvest Limited (UCL) | Holding Co | Deposits Held | 48.05 Cr | Neutral; interest at market rates | | Utkarsh Welfare Foundation | Entity with Director Relatives | CSR Contribution | 5.12 Cr | ***High***; 100% of CSR channeled through insider-linked entity | | KMPs | Management | Remuneration | 4.87 Cr | Standard compensation | | Utkarsh Coreinvest Limited (UCL) | Holding Co | Interest Paid | 3.44 Cr | Linked to deposits | | Utkarsh Coreinvest Limited (UCL) | Holding Co | Rent & Service Charges | 0.08 Cr | Immaterial |

C. Shareholding * **Promoters:** 69.06% (Diluted from 84.75% post-IPO). * **FIIs:** 9.83%. * **DIIs:** 13.90%. * **Public:** 7.21%. * **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation * **Total Directors:** 8 (62.5% Independent). * **Women Directors:** 1 (Ms. Kalpana Prakash Pandey). * **MD & CEO (Govind Singh):** □2.50 Cr (10.13% YoY growth). * **CFO (Sarjukumar Simaria):** □1.13 Cr (17.71% YoY growth). * **CS (Muthiah Ganapathy):** □0.44 Cr (10.00% YoY growth). * **Analysis:** Total KMP compensation growth (11-12%) is lower than Operating Profit growth (18.96%). MD & CEO variable pay is heavily deferred (3 years) and split between cash and ESOPs.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | :--- | :--- | :--- | :--- | | Equity Issuance (IPO) | 500.00 Cr | 0.00 Cr | **Positive** | | Dividends | 54.97 Cr (calc.) | 0.00 Cr | **Positive** | | Banking Software Capex | 72.76 Cr | 50.47 Cr | — | | Statutory Reserve Transfer | 124.41 Cr | — | — |

- **CAPEX Analytical Notes:**
  - **CFO coverage:** Robust; □500 Cr IPO proceeds significantly bolstered capital base (**CRAR 22.57%**).
  - **Capex Nature:** Primarily growth-oriented, focusing on digital transformation (TMO project) and core banking software upgrades.
  - **Deployment Efficiency:** High; self-funded the expansion of 202 branches over two years.
  - **Key Takeaway:** Value-creating allocation; successfully raised capital to fund **31.1% loan book growth**.

H. Risks * ***Unsecured Concentration***: 60.7% of advances (□10,100.16 Cr) are unsecured. Impact: High loss-given-default in systemic rural downturns. * ***Maturity Mismatch***: 34.6% of deposits (□6,047.82 Cr) mature within 6-12 months. Impact: Refinancing risk if interest rates spike suddenly. * ***Geographic Concentration***: 60% of loan portfolio in Bihar, Jharkhand, and UP. Impact: Vulnerability to regional political or weather shocks. * ***Regulatory Compliance***: Past non-compliance in NCD filings. Impact: Reputational damage and potential for higher penalties. * ***Earnings Volatility***: Use of "Floating Provisions" (□148.62 Cr) to manage Net NPA. Impact: Masks true asset quality; Net NPA of 0.03% is "artificially low."

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	—	60% Geographic concentration; 60.7% Unsecured	Moderate diversification with high regional and credit risk profile.
Financial health	5	—	D/E 0.64x; CRAR 22.57%; CFO > PAT	Strong capital buffers and cash generation post-IPO.
Earnings quality	3	—	NNPA 0.03% via ₹148.62 Cr Floating Prov	Reported asset quality is heavily managed through discretionary provisions.
Management & governance	3	—	100% CSR to insider foundation; SEBI settlement	Generally compliant but RPT concentration in CSR is a monitorable.
Capital allocation & earnings visibility	4	—	31.1% GLP growth; ROCE > WACC	Disciplined capex with visible earnings conversion from new branches.

Business positives (for this company this year) * **Strong Loan Growth:** Gross Loan Portfolio grew 31.1% YoY to ₹18,299 Cr. * **Capital Fortification:** CRAR improved to 22.57% following a successful ₹500 Cr IPO. * **Robust Cash Generation:** CFO of ₹1,148.45 Cr is 2.31x Net Profit. * **Liability Granularity:** Retail Term Deposits grew 42.9%, reducing reliance on top depositors. * **Conservative Provisioning:** Maintained a high PCR of 98.92% to buffer against volatility.

Business negatives / concerns (for this company this year) * **High Unsecured Exposure:** 60.7% of total advances (₹10,100.16 Cr) lack collateral. * **Regional Concentration:** 60% of the loan book is tied to three states (Bihar, UP, Jharkhand). * **Managed Asset Quality:** Net NPA of 0.03% is achieved only by netting off ₹148.62 Cr in floating provisions. * **Liquidity Mismatch:** 34.6% of deposits (₹6,047.82 Cr) mature within one year, creating refinancing risk. * **Governance Flag:** 100% of CSR funds (₹5.12 Cr) channeled to a promoter-linked foundation.

OVERALL SCORECARD SUMMARY Utkarsh SFB is in a stable-to-improving trajectory following its IPO, characterized by strong capital adequacy and robust loan growth. While financial health is excellent due to high CRAR and strong CFO generation, earnings quality is moderate as the bank uses significant discretionary provisions to manage asset quality optics. Governance is generally adequate, though the concentration of CSR spending in an insider-linked foundation remains a point of diligence. The business is successfully diversifying into secured assets, which will be the primary driver of long-term stability.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 10/10 — Governance Rating: 4

Part c: investor verdict

Thesis: A high-growth SFB transitioning from unsecured MFI to a diversified retail bank, backed by a strong capital base post-IPO. **Overall stance:** ACCUMULATE **Rationale:** Strong 31% loan growth and 22.5% CRAR provide a margin of safety against regional credit volatility. **Re-evaluate when:** Unsecured advances exceed 70% of GLP or GNPA (pre-floating provisions) crosses 5%. **BULL CASE:** Successful scale-up of MSME/Wheels to 50% of GLP, driving a re-rating to 2.5x P/B. **BEAR CASE:** Political interference or climate shock in Bihar/UP leads to credit losses exceeding floating provisions, compressing ROA below 1.5%. **Key monitorable:** Net Interest Margin (NIM): 9.10% → Watch threshold: < 8.50%.